Behavioral Economics
Spring 2023

Instructor: Professor Alex Imas

Time and Location: Mondays 1:30-4:20 p.m. Central, Stuart Hall 101

Contact: phone: 224-392-3669, email: alex.imas@chicagobooth.edu

Teaching Assistant: Umy Yasar; umy@chicagobooth.edu

Outline and Objectives

Overview and Goals

This course will be taught seminar-style, with lectures on the behavioral economics literature studying decision-making and strategic interactions and interactive presentations of recent and original research. One of the main goals of the course is to provide students with hands-on experience on how to design and carry out their own experiments. To this end, active experimentation using both traditional and cutting-edge research methods will constitute a significant portion of the class.

The lectures will explore how psychology and economics have been integrated to form behavioral economics, giving researchers a unique set of tools to study how people respond to risk, make choices over time, and interact with others. We will then do an overview of how behavioral economics has been used to test game theory of strategic interactions and how people learn about their environment and the actions of others. The last sections of the class will briefly review work on behavioral finance and emotions.

Students will have an opportunity to critically discuss existing behavioral economics research as well as to present their own research ideas. Everyone will have an opportunity to both participate and run their own experiments.

Prerequisites

Students should be comfortable with basic economic principles such as supply and demand, utility functions, and choice under risk.

We will use some math in the class, and familiarity with certain theoretical constructs is required in order to understand why experiments are used to study them.

Format

The course will be comprised of pre-recorded lectures and a seminar-style in-class discussion. Students are expected to interact, comment, and challenge both the instructor and their classmates.

The class is organized into modules, with each module composed of one or two classes focused on one of the topics listed below. Modules will typically begin by introducing the seminal papers in the literature and proceed towards newer work. Students will both participate in experiments

and conduct their own in line with the theme of each module. Many of the assignments will be group-based. Students will have time to interact with their group during class time, and will be expected to work on projects with their group outside of class.

Requirements and Grading

The class will have a midterm but no final exam. Participation, take-home assignments, and the final project will be used to determine grading. Students will have an opportunity to discuss their own ideas throughout the quarter. In addition, a final paper will be due at the end of the semester.

Participation

Given the seminar format of this course, students are expected to play an active role in class discussions. Each student will upload 2-3 questions on the required readings to Canvas before class. We will discuss these questions in class. There will also be a short quiz at the beginning of each class to gauge understanding of the material.

Given the interactive nature of the class, regular attendance and active participation is required. Please speak to the Professor as soon as possible if you anticipate missing a significant number of classes.

Original Experiments

Throughout the class we will be using the Prolific crowdsourcing platform to conduct experiments in real-time. Student groups will be expected to submit an original experiment twice during the class. These ideas will be voted on (double-blind) by the class. The winning experiment will be carried out and the results discussed. The winners will receive extra credit, equivalent to one review. The second experimental idea will also need to be accompanied by a Qualtrics .qsf file.

Final Project

The final project is a paper (10-20 pages) on an original research topic of the student's choice. The paper should be structured as a standard scientific article, with an introduction, literature review, procedures, results, discussion and conclusion. Actual data is not required. If no data was collected, the results section should contain a detailed plan on how such data would be analyzed. Students can work together in groups of up to 4 people. Groups are expected to turn in a proposal by the date indicated on the Syllabus.

Grading

The grade will be based 30% on participation, 20% midterm, 20% on Prolific Experiments and 30% on the final project.

Depending on the distribution on points the class can be curved up (never down). Hence, if you have over 90% of the possible points you are going to have an A regardless of how everybody else does. Letter grades are in principle assigned according to the percentage of total points according to the following scale:

100-90 ..... A
89- 80 ..... B
79-70 C
69-60 ..... D
< 60 ..... R

Text

Unfortunately, there is no standard behavioral economics textbook. So, most of the material will come from the lecture. All lectures will be posted at least 3 days before the start of the next class.

Required and optional reading will be posted to Canvas. The following text is encouraged:

Camerer, C. F., Loewenstein, G., and Rabin, M. Advances in Behavioral Economics, New York, Princeton University Press, 2004.

Administrative Issues and Policies

Email

The best way to reach me is via email. I will do my best to answer emails as soon as I receive them, but it is not always possible. Include the TA on the email to speed up the process. In addition, I will send out class information to the email you have on file with the university (through Canvas), so make sure that email is correct and course emails do not go to the spam folder.

Assignment Policy

All assignments must be turned in **before** the beginning of class time in order to receive credit.

Classroom Etiquette

Arrive on time

Please arrive on time at the start of class. Quizzes will be distributed at the beginning of class and those arriving late will not be able to take them. We will often be running experiments in the class, with you as the participants. If you arrive late, you'll miss the instructions and will not be able to participate.

Academic Integrity

Academic integrity is a serious issue. All things considered, a marginally better grade is not ever worth engaging in academic dishonesty (copying, cheating, plagiarizing). Many of the assignments are collaborative by nature, and I encourage you to work with your classmates on them. However, each student should turn in their own assignment and clearly indicate who they had worked with. Copying, cheating, or plagiarizing are going to be penalized.

Take Care of Yourself

Do your best to maintain a healthy lifestyle this semester by eating well, exercising, avoiding drugs and alcohol, getting enough sleep and taking some time to relax. This will help you achieve your goals and cope with stress.

All of us benefit from support during times of struggle. You are not alone. There are many helpful resources available on campus and an important part of the college experience is learning how to ask for help. Asking for support sooner rather than later is often helpful.

If you or anyone you know experiences any academic stress, difficult life events, or feelings like anxiety or depression, we strongly encourage you to seek support. UChicago Student Wellness is here to help: call 773-702-3625 and visit their website at https://wellness.uchicago.edu/. Consider reaching out to a friend, faculty or family member you trust for help getting connected to the support that can help.

If you have questions about this or your coursework, please let me know.

Approximate Course Outline

This is an ambitious list of topics for the semester. We might not get through all of it if some topics take more time than expected, and that is OK.

All listed readings are required.

March 20 - Risk-Taking and Reference-Dependence

Assignments Due: Bring questions

- Kahneman, D. and Tversky, A. (1979). Prospect Theory: An Analysis of Decision Under Risk. Econometrica, 47, 263-292.

March 27 - Mental Accounting and History Dependence

Assignments Due: Bring Questions

- Thaler, Richard (1999). Mental Accounting Maters. Journal of Behavioral Decision Making, 12, 183-206.
- Imas, Alex (2016). The Realization Effect: Risk-Taking after Realized versus Paper Outcomes

April 3 - Time Preferences

Assignments Due: Bring Questions, Prolific Experiments

- Loewenstein, G. and Thaler, R. (1989). Anomalies: Intertemporal Choice. Journal of Economic Perspectives, 3, 181-193.

- Kaur, Supreet, Kremer, Michael and Mullainathan, Sendhil. (2015). Self Control at Work. Journal of Political Economy, 123, 1227-1277.

April 10 - Social Preferences

Assignments Due: Bring Questions, finalize groups

- Camerer, C. and Thaler, R. (1995). Anomalies: Ultimatums, Dictators and Manners. Journal of Economic Perspectives, 9, 209-219.
- Dana, Jason, Weber, Roberto and Kuang, Jason. (2007). Exploiting moral wiggle room: experiments demonstrating an illusory preference for fairness. Economic Theory, 33, 67-80.

April 17 - Behavior in Markets and the Endowment Effect

Assignments Due: Bring Questions

- Smith, V. L. (1962). An Experimental Study of Competitive Market Behavior. Journal of Political Economy, 70, 111-137.
- Kahneman, D., Knetsch, J. and Thaler, R. (1991). Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias. Journal of Economic Perspectives, 5, 193-2006.
- Falk, A. and Szech, N. (2013). Morals and Markets. Science, 340, 707-711.

April 24 - Strategic Interactions

Assignments Due: Bring Questions, Prolific Experiments and Qualtrics file

Midterm

- Fehr, Ernst and Gachter, Simon. (2000). Cooperation and Punishment in Public Goods Experiments. American Economic Review, 90, 980-994.
- Myatt, David, Shin, Hyun Song and Wallace, Chris. (2002). The Assessment: Games and Coordination. Oxford Review of Economic Policy, 18, 392-417.

May 1 - Learning and Persuation

Assignments Due: Bring Questions, Final Project Proposal

- Anderson, L. and Holt, C. (1997). Information Cascades in the Laboratory. American Economic Review, 87, 847-862.
- Gneezy, U. (2005). Deception: The Role of Consequences. American Economic Review, 95, 384-394.
- Bursztyn, L., Gonzalez, A. and Yanagizawa-Drott, D. (2019). Misperceived Social Norms: Female Labor Force Participation in Saudi Arabia.

May 8 - Forming Beliefs

Assignments Due: Bring Questions

- Tversky, Amons and Kahneman, Daniel. (1974). Judgment under Uncertainty: Heuristics and Biases. Science, 4157, 1124-1131.
- Enke, Benjamin (2020). What You See Is All There Is. Quarterly Journal of Economics. Forthcoming.

May 15 - Financial Markets and Information Aggregation

Assignments Due: Bring Questions

- De Bondt, Werner and Richard H. Thaler (1989). A Mean Reverting Walk Down Wall Street. Journal of Economic Perspectives, 3, 189-202.
- Odean, Terrance (1998). Are Investors Reluctant to Realize Their Losses? Journal of Finance, 5,1775-1798.

May 22 - Incentives and Labor Markets

OPTIONAL

- Gneezy, U., Meier, S. and Rey-Biel, P. (2011). When and Why Incentives (Don't) Work to Modify Behavior. Journal of Economic Perspectives, 25, 191-210.
- Imas, A. (2013). Working for the Warm Glow: On the Benefits and Limits of Prosocial Incentives. Journal of Public Economics.